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**DATE:** October 24, 2002  
**TO:** Division of Commission Clerk and Administrative Services  
**FROM:** Division of Economic Regulation (Fitch) *RF*  
**RE:** Docket No. 010087-WS, Application for a Reuse Plan by Sun Communities Finance LLC  
d/b/a Water Oak Utility

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Please include the attached letter dated October 23, 2002, in the above referenced docket file.

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October 23, 2002  
**VIA HAND DELIVERY**

Gerald Edwards  
Division of Economic Regulation  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, Florida 32399

Re: Sun Communities Finance LLC d/b/a Water Oak Utility  
PSC Docket No. 010087-WS; Application for Approval of Reuse Plan  
Our File No. 33013.01

Dear Gerald:

Outlined below are the comments of Sun Communities Finance, LLC d/b/a Water Oak Utility to the recently issued Audit Report in the above-referenced docket. These are categorized by audit exception or disclosure from the audit.

Please note that there are several responses that request additional information so that the Utility can fully analyze the audit exception or disclosure from the audit. I would appreciate your seeing to it that we obtain the additional information requested as quickly as possible.

1. Response to Audit Exception No. 4 - For the calendar year ended December 31, 2001 the Company deferred \$40,018 of wastewater revenue as required by PSC Order No. PSC-00-1165-PAA-WS. As a result of this required deferral, the Company does not agree that operating revenues were understated in the general ledger except for the impact of the \$4,141 audit adjustment to general service revenue.

The Company decreased operating revenues by 23.07% and deferred these revenues for the year ended December 31, 2001 in the same manner as shown on Schedule No. 3, Page 2 of 2 (Page 84) in the Order referenced above. Also on that schedule, regulatory assessment fees were decreased related to the revenue deferred, thereby suggesting it was the Commission's intent these revenues not be subject to such fees. If the Commission

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determines that the Utility has over earned during the period these revenues were required to be deferred, and as such, determines that some portion of these revenues must be treated as CIAC, then the deferred revenue provision should be reduced for the imbedded RAFs, to the extent those are required to be paid on this revenue. To the extent the Utility has not over earned, these monies should be released to pay for the normal operating expenses of the Utility immediately. Based upon the audit, none of the revenues deferred during 2001 should be considered as CIAC and all of those revenues should be released to the Utility, since there are no over earnings during that period. Once that is done, RAFs should be paid on these revenues.

For the last five months of the calendar year 2000, the Utility had a substantial loss in wastewater operations, and water system over earnings of only approximately \$6,000 for the entire year, even though the Order requiring deferral of revenue did not take effect until July or August of 2000. In order to err on the side of being conservative, the Utility would propose to book that \$6,000 to CIAC to be applied toward the Reuse Project Plan on the wastewater system, and to discontinue deferral of any further revenues because of the under earnings experienced by the Utility in all periods during which the deferral was effective and the expected continuation of this deficit into the future for both the water and wastewater systems.

2. Response to Audit Exception No. 5 - The auditors propose to write off \$489 and \$1,441 of water and wastewater expenses respectively, related to the potential sale of Utility assets. For the test year, the Company wrote off all expenditures related to the planned sale of the Utility to the City of Lady Lake as non-utility expense. The Company would like to obtain and review the invoices related to staff's proposed adjustment for these additional write-offs, prior to agreeing with this exception.
  
3. Response to Audit Exception No. 6 - Based on Document/Record Request Nos. 11, 12, 17 and 19, the Utility provided the auditors with information related to calendar year 2001 conservation expenditures:

Meter replacements	\$	12,451
Conservation expenses		<u>25,668</u>
Total per Company	\$	<u>38,119</u>
Expenses per audit	\$	<u>26,208</u>
Difference	\$	<u>11,911</u>

The Utility believes that all reported conservation expenditures were appropriate and comply with the requirements of Order No. PSC-00-1165-PAA-WS. The Company requests that it be provided copies of the invoices

identified by the auditors which, in their opinion, do not qualify as conservation expenses.

4. Response to Audit Disclosure No. 1 - The audit recommendation to remove mowing expense related to the sprayfield rests on the incorrect assumption that the sprayfield will not be required once the reuse facility is operational. This facility will be required for wet weather and excess disposal capacity. Attached hereto is a copy of a letter from the Utility's consulting professional engineer attesting to this fact and disagreeing with the staff conclusion, based upon the requirements of DEP. Staff should contact the Company's engineer, Julian Coto, P.E., if further information concerning this issue is required.

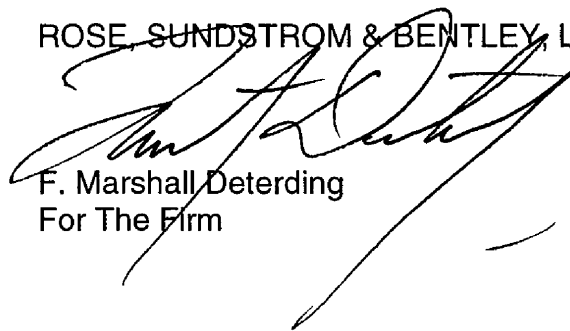
We look forward to receiving the additional information requested related to Audit Exception No. 5 and No. 6 as quickly as possible so that we can provide a proper response to those items. The audit workpapers will probably provide the information needed, if you can forward those immediately.

We trust that the staff will make adjustments to the findings of the Audit Report in conformance with these items. To the extent the staff disagrees with any points raised in this audit response, we would appreciate the staff letting us know so that we can work these out prior to final submission of a staff recommendation in this case.

If you have any questions in this regard, please let me know.

Sincerely,

ROSE, SUNDSTROM & BENTLEY, LLP



F. Marshall Deterding  
For The Firm

FMD/tms

cc: Ralph Jaeger, Esquire  
Mr. Ryan Fitch  
Mr. Troy Rendell  
Marshall Willis, CPA  
Julian Coto, P.E.  
Gabriele Umbel  
Mary Petrella  
Gary Morse, P.E.  
Brian Fannon  
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wateroakledwards.ltr



**EXCEL**  
**ENGINEERING CONSULTANTS, INC.**  
*Environmental & Civil Engineers*

October 18, 2002

Rose, Sundstrom & Bentley  
Mr. Marshall Deterding  
Rose, Sundstrom & Bentley  
2548 Blairstone Pines Drive  
Tallahassee, FL 32301

Via Facsimile: 850-656-4029

**Subject: Water Oak WWTF Reuse Plan**

Dear Marty:

Please be advised that we do not agree with Disclosure No. 1 of the FPSC staff audit report. Apparently the staff has concluded that the Spray Field which is currently being used for effluent disposal won't be required once the reuse plant is on-line. The spray field will serve as an alternate effluent disposal mechanism. Chapter 62-610, FAC requires that an alternate mechanism or additional wet weather storage be provided. It is our intention, at this time, to use the existing effluent disposal field as the alternate effluent disposal mechanism instead of adding additional wet weather storage. Therefore, it appears that Staff's recommendation of removing the existing spray field from rate base along with any costs associated with its operation, maintenance, property taxes, etc. is not consistent with the expected design and operation for the proposed WWTF.

Please contact me at your earliest convenience if you need additional information.

Sincerely,  
Excel Engineering Consultants, Inc.

Julian R. Coto, P.E., D.E.E.  
President

JRC/mj

cc Brian Fannon  
Gary Morris  
Gabriele Umbel

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